

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CASH ACCOUNTABILITY IN THE DEPARTMENT OF
DEFENSE, IMPREST FUND MAINTAINED BY THE U.S.
PROPERTY AND FISCAL OFFICER FOR INDIANA**

Report No. 94-187

September 9, 1994

Department of Defense

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**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

September 9, 1994

**MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
U.S. PROPERTY AND FISCAL OFFICER FOR INDIANA**

**SUBJECT: Audit Report on Cash Accountability in the Department of Defense,
Imprest Fund Maintained by the U.S. Property and Fiscal Officer for
Indiana (Report No. 94-187)**

We are providing this final report for your information and use. It discusses actions to account for cash in the imprest fund managed by the U.S. Property and Fiscal Officer for Indiana. This report is part of our audit of cash accountability within the Department of Defense, and the results herein will also be included in a consolidated report.

Comments on a draft of this report were considered in preparing the final report. The comments met the requirements of DoD Directive 7650.3, and there were no unresolved issues. Therefore, no additional comments are required.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Carmelo G. Ventimiglia, Project Manager, at (317) 542-3852 (DSN 699-3852). The distribution of this report is in Appendix C. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-187

(Project No. 3FG-2019.07)

September 9, 1994

**CASH ACCOUNTABILITY IN THE DEPARTMENT OF DEFENSE,
IMPREST FUND MAINTAINED BY THE U.S. PROPERTY
AND FISCAL OFFICER FOR INDIANA**

EXECUTIVE SUMMARY

Introduction. We reviewed the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana. The imprest fund was valued at \$3,500. This audit is part of our audit of cash accountability within the Department of Defense, and the results of the audit will be included in a consolidated report.

Objectives. The objectives of the audit were to verify the accountability for cash and related assets and to evaluate the adequacy of procedures used to determine the accuracy of records used to support cash accountability at DoD accounting offices and organizations authorized to have imprest funds. We also assessed compliance with applicable laws and regulations and evaluated internal control procedures used to comply with the DoD Internal Management Control Program as it pertained to the audit objectives.

Audit Results. Our surprise audit of the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana disclosed that on the date of our cash count, January 19, 1994, the cash on hand and the amounts on vouchers equaled the amount of money authorized to be in the fund. Controls over the fund were generally adequate in that vouchers were properly approved, and disbursements were supported by receipts. We noted, however, that the imprest fund was used to pay spot awards for outstanding employee performance at the time of the act or achievement that prompted such recognition. That practice is good policy, but has not been authorized. Volume 1, "Treasury Financial Manual," June 1993, indicated that because the U.S. Treasury routinely granted an exception to the use of the imprest fund to pay spot awards, a waiver was granted to all agencies on a permanent basis if authorized by the agency head or policy designee. Since DoD has yet to approve that practice, DoD managers have less flexibility when funding cash awards than their civilian agency counterparts.

Internal Controls. The internal controls applicable to the audit objectives were deemed to be effective in that material deficiencies were not disclosed by the audit, and the cash on hand agreed with pertinent records. Measures taken to safeguard the accessibility of cash were found to be appropriate. However, unannounced cash counts were not conducted at random times throughout each quarter of the fiscal year, and management corrected that deficiency as a result of our audit. Also, the risk assessment prepared by the U.S. Property and Fiscal Officer for Indiana did not cover the imprest fund. Otherwise, our review of internal management controls showed that the U.S. Property and Fiscal Officer for Indiana generally complied with the DoD Internal Management Control Program. Part I discusses the internal controls reviewed, and Part II contains details of the weaknesses.

Potential Benefits of Audit. Recommendations in this report, if implemented, will ensure consistent use of imprest funds for the payment of spot awards and improve controls over the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana.

Summary of Recommendations. We recommended that the Comptroller of the Department of Defense amend volume 5, DoD Regulation 7000.14-R, "Financial Management Regulation," to authorize the use of imprest funds for payment of spot awards. We also recommended that the U.S. Property and Fiscal Officer for Indiana perform a risk assessment of the imprest fund.

Management Comments. We received comments from the Deputy Comptroller of the Department of Defense (Financial Systems) and the U.S. Property and Fiscal Officer for Indiana. The Deputy Comptroller of the Department of Defense (Financial Systems) and the U.S. Property and Fiscal Officer for Indiana generally concurred with the finding and recommendations. No further management comments are required.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Introduction

Background

Within the Department of Defense, disbursing officers are entrusted with public funds to facilitate payments to the public, members of the military, and civilian employees. Those officers are accountable for public funds whether on hand with agents, with cashiers, or in depositories. The disbursing officers are responsible for maintaining appropriate cash, negotiable instruments, and other documents comprising accountability and to present such to authorized personnel for verification at any time.

Objectives

The objectives of the audit were to:

- o verify the accountability for cash and related assets and
- o evaluate the adequacy of procedures used to determine the accuracy of records used to support cash accountability at Department of Defense accounting offices and organizations with imprest funds.

We also assessed compliance with applicable laws and regulations, and evaluated the DoD Internal Management Control Program as it pertained to the audit objectives.

Scope and Methodology

This financial related audit was made of the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana. The imprest fund is part of the Defense Finance and Accounting Service Indianapolis Center's Defense Accounting Office for Consolidated Network Operations (Harrison), Disbursing Station Symbol Number 5053. We made an unannounced cash count on January 19, 1994, of the imprest fund. The value of the audited fund was \$3,500. We counted the cash on hand and reviewed associated supporting documentation. We also reviewed DD Form 1081, "Statement of Agent Officer's Account," and verified the appointment letter establishing the principal imprest fund cashier and alternate cashier.

This audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, and accordingly, included such tests of internal controls as considered necessary. No computer-processed information or statistical sampling was involved. Appendix B lists the organizations we visited or contacted.

Internal Controls

No material internal control weaknesses were found. Internal controls over funds were generally adequate in that vouchers in the imprest fund were approved and purchases were within prescribed limits and were properly supported by receipts. We reviewed the physical controls over the imprest fund's cashier area and procedural controls over security. Physical controls over the imprest funds were in place, and procedural controls over security were adequate. A review of previous unannounced cash counts was also accomplished, and no discrepancies were noted. However, the cash counts were conducted each quarter of the fiscal year at a predetermined time instead of randomly, as required. Management corrected that deficiency during our audit. Also, the imprest fund was not included in the risk assessment performed by the U.S. Property and Fiscal Officer for Indiana. Recommendation 2., if implemented, will correct that weakness. Otherwise, actions taken to comply with the DoD Internal Management Control Program were adequate as prescribed by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. This report identifies no potential monetary benefits. However, see Appendix A for a summary of nonmonetary benefits.

Prior Audits and Other Reviews

Except for previous unannounced cash counts, no external audits or reviews of imprest funds had been performed in the past 5 years.

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Part II - Finding and Recommendations

Management of the Imprest Fund

The U.S. Property and Fiscal Officer for Indiana used the imprest fund to pay for spot awards without specific approval. Also, no risk assessment had been performed for the imprest fund. Although the "Treasury Financial Manual" allowed the use of imprest funds to pay for spot awards when authorized by the agency head, and the practice has merit, the "DoD Financial Management Regulation" did not authorize the use of the imprest fund for that purpose. As a result, a good management practice is not being encouraged. Also, the risk assessment performed by the U.S. Fiscal Officer for Indiana did not include the imprest fund due to an oversight. As a result, the risks associated with the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana were not properly evaluated as part of the Internal Management Control Program.

Background

Volume 1, "Treasury Financial Manual," June 1993; the "Federal Acquisition Regulation;" part 13, "DoD Federal Acquisition Regulation Supplement," as amended August 1, 1987; and volume 5, DoD Regulation 7000.14-R, "DoD Financial Management Regulation," December 16, 1993; prescribe the accounting standards and related management requirements necessary to establish financial control over imprest funds. Payments from imprest funds are to be made only for uses authorized by the regulations. Spot awards are payments for outstanding employee performance at the time of the act or achievement that prompted such recognition.

Internal Controls Over Cash

Spot Awards. During the cash count conducted on January 19, 1994, we found that the imprest fund was used extensively to pay spot awards. Receipts for two of the three expenditures made from the fund, and for all five expenditures that supported an unpaid reimbursement voucher, were to pay spot awards. We were told that the basis for use of the imprest fund for paying spot awards was the June 1993 revision to volume 1, "Treasury Financial Manual." That manual indicated that because the U.S. Treasury routinely granted an exception to the use of the imprest fund to pay spot awards, a waiver was granted to all agencies on a permanent basis if authorized by the agency head or policy designee. However, volume 5, DoD Regulation 7000.14-R, does not specifically state that the imprest fund can be used to pay spot awards. We believe that the use of imprest funds for payment of spot awards is in the best interest of the Department of Defense and that volume 5, DoD Regulation 7000.14-R, should be amended to provide more uniform use of imprest funds within DoD.

Risk Assessment of the Imprest Fund. The risk assessment prepared by the U.S. Property and Fiscal Officer for Indiana did not cover the imprest fund. The imprest fund is vulnerable to abuse and should have been included in the risk assessment prepared by the U.S. Property and Fiscal Officer for Indiana. Personnel at the U.S. Property and Fiscal Officer for Indiana indicated they were not aware that the imprest fund had been omitted from the risk assessment until we brought it to their attention. A risk assessment would have identified that the imprest fund was used extensively to pay spot awards.

A risk assessment also should have disclosed that the unannounced cash counts performed by the Internal Review Office, U.S. Property and Fiscal Officer for Indiana, were routinely conducted during the second week of each quarter in conjunction with a quarterly review of imprest fund practices. The U.S. Property and Fiscal Officer for Indiana has subsequently changed procedures to ensure the unannounced cash counts are performed randomly each quarter. A risk assessment should be performed for the imprest fund maintained by the U.S. Property and Fiscal Officer for Indiana to ensure the risks associated with the fund are properly evaluated as a part of the Internal Management Control Program.

Recommendations for Corrective Action

1. We recommend that the Comptroller of the Department of Defense amend the "DoD Financial Management Regulation," to specifically allow the use of imprest funds for the payment of spot awards.
2. We recommend that the U.S. Property and Fiscal Officer for Indiana perform a risk assessment of the imprest fund.

Management Comments

We received comments from the Comptroller of the Department of Defense and the U.S. Property and Fiscal Officer for Indiana. The Deputy Comptroller of the Department of Defense (Financial Systems) and the U.S. Property and Fiscal Officer for Indiana generally concurred with the finding and recommendations. Management comments are reproduced in their entirety in Part IV of this report.

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Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
1.	Compliance. Implementation will ensure more uniform use of the imprest funds within DoD.	Nonmonetary
2.	Internal controls. Implementation will ensure that the risks associated with the fund are properly evaluated.	Nonmonetary

Appendix B. Organizations Visited or Contacted

Department of the Army

U.S. Property and Fiscal Officer for Indiana, Indianapolis, IN

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Indianapolis, IN

Appendix C. Report Distribution

Office of the Secretary of Defense

Comptroller of the Department of Defense

Deputy Comptroller of the Department of Defense (Financial Systems)

Deputy Comptroller of the Department of Defense (Management Systems)

Department of the Army

Assistant Secretary of the Army (Financial Management)

Chief, National Guard Bureau

U.S. Property and Fiscal Officer for Indiana

Auditor General, Department of the Army

Defense Organizations

Director, Defense Finance and Accounting Service

Director, Defense Finance and Accounting Service Indianapolis Center

Part IV - Management Comments

Comptroller of the Department of Defense Comments



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

Financial Systems)

AUG 5 1994

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, ODODIG

SUBJECT: DoDIG Draft Audit Report on Cash Accountability in the
Department of Defense, Imprest Fund Maintained by the
U.S. Property and Fiscal Officer for Indiana
(Project 3FG-2019.07)


This memorandum responds to your memorandum of June 10,
1994, requesting comments on the subject draft report.

This office generally concurs with the findings and recom-
mendations contained in the report. Specific comments pertaining
to a recommendation directed to the DoD Comptroller are as
follows:

Recommendation 1. We recommend that the Comptroller of the
Department of Defense amend the DoD Financial Management Regula-
tion to specifically allow the use of imprest funds for the
payment of spot awards.

DoD Response. Concur. The Defense Finance and Accounting
Service (DFAS) has been tasked to modify Volume 5 of the DoD
Financial Management Regulation to authorize imprest funds to pay
spot awards. Attached is a copy of the memorandum to the DFAS.
Estimated completion date is September 30, 1994.

My staff contact regarding this matter is Mr. De W. Ritchie.
He may be reached on (703) 693-6520 or DSN 223-6520.


Richard F. Keevey
Deputy Comptroller
(Financial Systems)

Attachment

U.S. Property and Fiscal Officer for Indiana Comments



DEPARTMENTS OF THE ARMY AND THE AIR FORCE
NATIONAL GUARD BUREAU
U S PROPERTY AND FISCAL OFFICER FOR INDIANA
2002 SOUTH HOLT ROAD
INDIANAPOLIS, INDIANA 46241 4839



REPLY TO
ATTENTION OF

MDI-PF (20-1a)

1 August 1994

MEMORANDUM FOR Department of Defense, Inspector General's Office,
Financial Management Directorate (ATTN: Mr. Rau),
400 Army Navy Drive, Arlington, Virginia
22202-2884

SUBJECT: Audit Report on Cash Accountability in the Department of
Defense, Imprest Fund Maintained by the U.S. Property and Fiscal
Officer for Indiana (Project No. 3FG-2019.07)

1. Reference your memorandum dated June 10, 1994, subject same as above.
2. After reviewing the draft report, this office has no recommended changes.

FOR THE USPFO FOR INDIANA:

THOMAS L. MYERS
COL, GS, INARNG
Supvry Log Mgmt Spec

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